

NAVY WORKING CAPITAL FUND

FISCAL YEAR 2001



NAVY WORKING CAPITAL FUND OVERVIEW



"Effectiveness follows efficiency. From my experience, I believe that the very best commercial companies are the most efficient companies. If you're very efficient, you can incorporate technology more quickly, you have the money to do R&D [research and development], you can develop new products, and you can bring those products to the market faster. We would like to have all of those attributes in our naval service."

Secretary of the Navy Gordon R. England

(Reprinted from Sea Power magazine, a publication of the Navy League of the United States)

Introduction

The Department of the Navy (DON) is dedicated to the promotion of stability, the projection of maritime power landward, and the exercise of American sovereignty abroad. The Activity Groups of the Navy Working Capital Fund support these efforts by:

- providing the goods and services necessary, when required, to keep the missions and programs of the Department of the Navy ready, responsive, and reactive;
- constantly striving for greater efficiency, to free resources that may be dedicated to the primary peacekeeping and warfighting mission of the Department of the Navy.

Organization of the Navy Working Capital Fund

The Navy Working Capital Fund (NWCF) is segregated into six Activity Groups, each of which has a unique contribution to make in support of the DON mission. The six groups are as follows:



Each Activity Group is supported by one or more activities, which have distinct but complementary missions. Details of the mission, structure, and performance of the Activity Groups and of their associated activities are provided in subsequent sections of this report.



This report also contains statements representing the financial position and results of operations for the NWCF, and includes statements for the Ordnance and Navy Component reporting segments. The financial information for these two reporting segments reflects administrative rather than functional performance, as follows:

- The Navy Component represents an administrative technique to capture the NWCF allocation of department-level transactions that cannot be equitably distributed among the separate Activity Groups defined in the NWCF.
- The Ordnance Activity Group transferred to the General Fund in FY 2000. The balances for this group reflected in the FY 2001 Annual Financial Statements represent residual accounting transactions. Residual accounting is necessary to ensure that the requirements initiated by the NWCF are ultimately funded by the NWCF, and that the accounting for such actions is carried by the NWCF.

The Navy Working Capital Fund and the Revolving Funds Concept

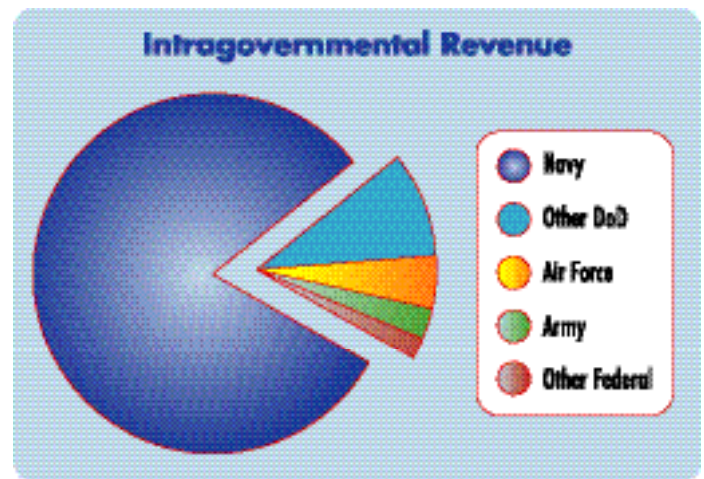
The Activity Groups financed by the NWCF do not receive an annual appropriation, but receive their cost authority from customer orders. As NWCF activities accept these orders and perform work for their customers, they use NWCF cash to cover their costs. Customers are then billed based on stabilized rates, with payment by the customer ultimately reimbursing the respective NWCF activity. This cycle is continuous, and the NWCF is thus considered a revolving fund.

The revolving fund has been part of the DON tradition since the 1800s. Within the DoD, use of revolving funds was first authorized by the National Security Act Amendment of 1949. In 1992, the individual revolving fund components of the DoD were consolidated into the Defense Business Operations Fund (DBOF), the policies and procedures of which were managed by DoD Comptroller (USD(C)). USD(C) was also made responsible for centralized cash management. The DBOF was later abolished, to be replaced in FY 1997 by four Defense Working Capital Funds, including the NWCF.



The Customers of the NWCF

The Required Supplementary Information section of this report details the revenue earned by the NWCF from transactions with customers throughout the federal government. Analysis of these transactions indicates that the Navy General Fund provided the NWCF with the largest dollar amount of work in FY 2001, accounting for \$16 billion of the total \$18 billion earned. The contributions of NWCF customers are broken down in the chart below:



NWCF Revenue Earned, by customer (\$ in thousands):

Customer	Earned Revenue	Percent
Navy General Fund	\$ 16,270,244	88.8%
Other DoD	1,158,916	6.3%
Air Force	456,683	2.5%
Army	201,259	1.1%
Other Federal	241,557	1.3%
Total	\$ 18,328,659	100.0%

Performance Measures

The Operating Result

Rather than fully obligating appropriated funds before they expire, the NWCF activities operate under the principle of controlling costs and offsetting those costs with revenue. Analysis of revenue, cost, the annual Operating Result, and the Accumulated Operating Results can thus provide an indication of how well the NWCF is performing as it seeks to break even over the long-term.

The revenue and expenses used to calculate the Operating Result should not be confused with the Program Costs and Earned Revenue displayed in the Statement of Net Costs.

The Operating Result calculations are focused on matching total costs to revenue, regardless of the customer. The Consolidating Statement of Net Costs provides Program Cost and Earned Revenue data after elimination of the portion of revenue and expenses that relate to other NWCF activities.

For nonsupply activities, the revenue earned in the NWCF is based on stabilized rates that are calculated to cover the estimated costs of products and services provided by the NWCF. These rates also take into account any prior-year gains or losses. Within the Supply Management Activity Group, revenue is earned based on a cost recovery factor assigned to inventory units.

Under the Working Capital Fund concept, all cost elements are visible, including direct costs,

indirect costs (overhead), and general and administrative costs. These cost elements are tied to a measurable, identifiable output.



Since the output units vary across the Activity Groups and across the activities within those groups, the Operating Result performance metric must be applied at the activity level. The Operating Result for each activity is presented in this report in the discussion of Activity Group performance.

Cash Management

For the NWCF, cash management is maintained at the component level. The cash requirement for the NWCF is to maintain seven to 10 days of operating cash and four to six months of capital outlays.

For FY 2001, the seven-day cash requirement was \$719 million, and the 10-day cash requirement was \$957 million. NWCF cash levels were well above the 10-day requirement for most of FY 2001.

The NWCF Treasury cash balance at year-end-FY 2001 was \$1,204 million, compared to the President's budget projection of \$1,244 million. The Treasury balance was, however, understated by \$58 million, due to erroneous prior-year payroll disbursements posted in September 2001. This error was reversed for the FY 2002 Treasury cash balance by way of an adjustment made in October 2001.

Challenges

Controls and Legal Compliance

The NWCF falls under the purview of the DON Management Control Program. This program is designed to assess the effectiveness of the DON system of internal accounting and administrative controls, with the objective of providing reasonable assurance that:

- resources are applied in compliance with applicable laws;
- assets are safeguarded; and
- the results of operations are properly recorded to permit reliable accounting, financial, and statistical reporting and to maintain asset accountability.

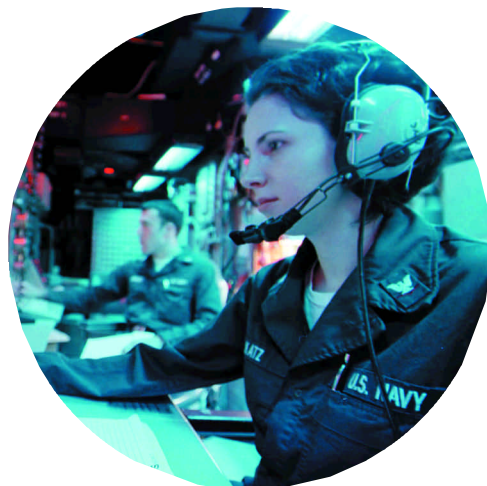
For FY 2001, the Statement of Assurance issued by the Secretary of the Navy asserts reasonable assurance that the DON has the controls in place to execute its mission effectively and that its critical assets are protected, with the exception of the material weaknesses reported. The material weakness reported specific to the NWCF focuses on the accounting and reporting of assets, liabilities, expenses, and revenue as symptomatic of system and process exceptions. In FY 2001, the NWCF focused its efforts on the reporting aspects of the cited weakness, by:

- addressing the delinquency of Accounts Receivable, laying the groundwork for an institutionalized process for establishing and maintaining an allowance for uncollectible process;
- implementing the Defense Departmental Reporting System at the major claimant level for the FY 2001 Annual Financial Statement process, thereby affording increased visibility to the DON

management commands over total assets, liabilities, revenues, and program cost for their respective operating activities;

In September 2001, 12 percent (\$11.9 million) of the NWCF's total Accounts Receivable balance was delinquent; i.e., more than 180 days old.

- addressing the distorting effects of adjustments made each year when compiling the NWCF consolidated financial statements. The transaction-based balances reported in the NWCF activities' trial balances for accounts payables, accounts receivable, prepayments, advances, and their associated revenue and expense accounts are adjusted to uncorroborated balances reported by other DoD and civilian agencies. The financial statements potentially can serve as a basis for exercising internal and management control throughout the NWCF, and the DON considers its effort to correct these distortions as essential to achieving reliability of the statements.



Shrinking Workforce

Civilian personnel levels in the DON are at the lowest level since before World War II. This downward trend is expected to continue as the result of reductions in force structure, decreasing workload, greater management efficiency, and the use of strategic sourcing.

	Actual FY 1999	Actual FY 2000	Actual FY 2001
End Strength			
Military	2,612	2,539	2,357
Civilian	91,490	88,396	87,413
Workyears (straight time)			
Military	2,552	2,545	2,402
Civilian	93,446	89,574	86,983

Forty-seven percent of the DON's civilians work at NWCF activities.

Looking Forward: Enterprise Resource Planning

Enterprise resource planning (ERP) has been shown by private industry to be capable of a spectacular impact on operational efficiency and management performance. The use of ERP has thus become a high priority for the DON, and we foresee using it to reengineer and standardize business processes, integrate operations, and optimize management resources. We have already piloted ERP in an NWCF activity with Project Cabrillo, with the sponsorship of the Space and Naval Warfare Systems Center, San Diego (SSC SD).

In June 2001, SSC SD successfully converted from the Defense Industrial Fund Management System (DIFMS) to the SAP R/3 business management system. The R/3 has been certified by the Joint Financial Management Improvement (JFMIP) organization as an authorized commercial software package as being a Chief Financial Officer (CFO)-certified financial system.

The implementation of the R/3 system, which required the reengineering of most business processes, including Finance, Asset

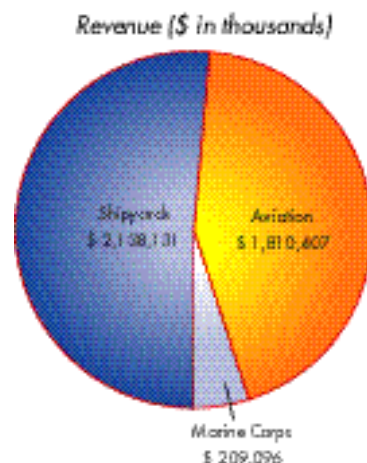
Management, Simplified Acquisition, Project Management, and all reporting, resulted in the retirement of 27 local SSC legacy systems and 53 interfaces. The end result is a single integrated system operating in a paperless environment.

A business case analysis of Project Cabrillo projects a return on investment within five and a half years, and a net savings of \$70.9 million over the next 10 years. These lower costs have been factored into the SSC SD out-year budget to reduce overall rates for the next decade.

Depot Maintenance

The Depot Maintenance Activity Group focuses on the repair and maintenance of the heavy equipment vital to a mobile, ready, and armed Navy and Marine Corps. The DON's diverse and specialized equipment are supported by three Depot Maintenance activity groups, which are presented separately in the Consolidating and Combining Statements of the NWCF:

- Depot Maintenance — Shipyards
- Depot Maintenance — Aviation
- Depot Maintenance — Marine Corps



Depot Maintenance – Shipyards

The Naval Shipyards provide logistic support for assigned ships and service craft; perform authorized work in connection with the construction, overhaul, repair, alteration, dry-docking and outfitting of ships and craft as assigned; perform design, manufacturing, refit and restoration, research, development and test work, and provide services and material to other activities and units as directed by competent authority.

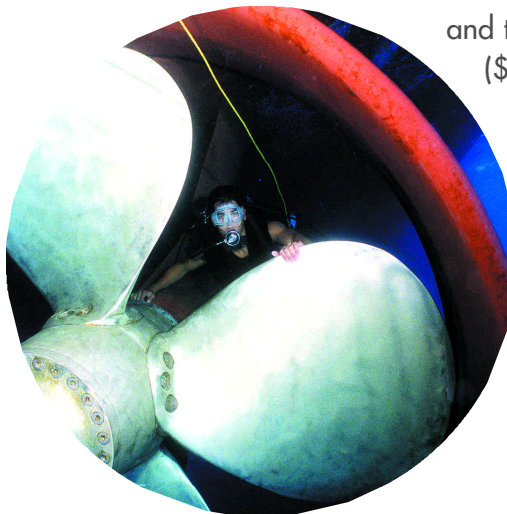
There are currently three shipyards reporting their depot maintenance functions within the NWCF, as follows:

Shipyards	Location	Type of Work
Portsmouth Naval Shipyard	Portsmouth, NH	Specializing in the Los Angeles Class nuclear-powered submarines, as well as scientific research for the Navy's deepest diving submarine and submersibles, defense prototype testing, and submerging rescue platforms.
Norfolk Naval Shipyard	Portsmouth, VA	The oldest and largest DON industrial facility specializes in repairing, overhauling and modernizing ships and submarines.
Puget Sound Naval Shipyard	Bremerton, WA	The Pacific Northwest's largest Naval shore facility, Puget Sound Naval Shipyard is focused on the maintenance, modernization, technical and logistic support for the Fleets.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 2,253,085	\$ 2,153,698	\$ 2,138,131	\$ 1,986,264
Expense	2,212,758	2,148,325	2,144,653	1,996,530
Operating Result	\$ 40,327	\$ 5,373	\$ (6,522)	\$ (10,266)

The NWCF Naval Shipyards exceeded the budgeted Operating Result target of (\$10.3M) as a total activity group by \$3.8M.



Depot Maintenance – Aviation

The mission of Depot Maintenance – Aviation is to provide responsive worldwide maintenance, engineering, and logistics support to the Fleet and to maintain the essential industrial capability to support mobilization.

The activity group must repair aircraft, engines, and components and manufacture parts and assemblies; provide engineering services to support the redesign of hardware; and furnish the technical and other professional services to resolve maintenance and logistics problems.

Naval Aviation Depots	Location	Type of Work
NAWVNDPOT, Cherry Point	Cherry Point, NC	This facility includes maintenance for the AV-8B Harrier, the vertical takeoff and landing tactical attack jet among its specialties.
NAWVNDPOT, Jacksonville	Jacksonville, FL	This facility supports a number of carrier-based aircraft, including the F-14 Tomcat, the F/A-18 Hornet, and the EA-6B Prowler.
NAWVNDPOT, North Island	San Diego, CA	This facility supports the F/A-18 aircraft, including those flown by the Blue Angels, the Navy's Flight Demonstration Squadron, as well as the E-2 Hawkeye, the C-2 Greyhound, and the S-3 Viking.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 1,484,583	\$ 1,722,416	\$ 1,810,407	\$ 2,145,603
Expense	1,466,011	1,722,548	1,824,762	2,101,289
Operating Result	\$ 18,572	\$ (1,32)	\$ (14,356)	\$ 44,314

The difference between the planned and the actual Operating Result (\$58.7M) includes operating losses in aircrafts, engines and other support programs.

Depot Maintenance – Marine Corps

The mission of Depot Maintenance – Marine Corps is to provide quality, responsive maintenance and maintenance-related products and services to the Fleet Marine Force (FMF) and other customers while maintaining the core industrial base necessary to support mobilization and surge requirements. The Marine Corps operate two Multi-commodity Maintenance Centers at Albany, GA and Barstow, CA. The two centers return unserviceable equipment to serviceable condition, perform maintenance up to the depot repair level, and overhaul, rebuild, and modify all types of ground equipment used by the Marine Corps and other DoD services.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 172,634	\$ 215,592	\$ 209,096	\$ 219,931
Expense	181,936	193,005	190,462	200,827
Operating Result	\$ (9,302)	\$ 22,587	\$ 18,634	\$ 19,104

The Operating Result reported above is before surcharges and extraordinary expenses. Key factors which contributed to achieving the Operating Result plan include reductions in direct labor hours and material costs as well as reductions in overhead cost resulting from an increased managerial focus to reduce and control costs.



Transportation

Military Sealift Command

One NWCF Activity – the Military Sealift Command - supports the transportation Activity Group.

During a war, more than 95 percent of all the equipment and supplies needed to sustain the U.S. military are carried by sea.

– MSC Mission and Vision

The mission of the Military Sealift Command is to provide efficient sea transportation, combat-ready logistics forces, and reliable special mission ships for the Department of Defense in times of peace and war.

The Military Sealift Command (MSC) has dual reporting responsibilities to the DON and to the U.S. Transportation Command (USTRANSCOM). As a working capital fund, MSC reports on three business lines:

- The Naval Fleet Auxiliary Force (NFAF) provides support using civilian mariner manned noncombatant ships for material support
- Special Mission Ships (SMS) provides unique seagoing platforms; and
- Afloat Pre-positioning Ships - Navy (APF-N) provides deployment of advance material for strategic lifts.

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MSC ships are separate and distinct from other US Navy ships in that:

- They are non-combatant;
- They include both government-owned and chartered vessels; and
- They are crewed primarily by civilian mariners from the US Civil Service and from private operating companies.

Command	Location	Customer Base
MSC Headquarters	Washington, DC	Administration and direction of MSC global resources
MSC Europe	Naples, Italy	Serves the European theater, which includes Europe, most of Africa, parts of the Middle East, and the South Atlantic Ocean east of 30 degrees west longitude
MSC Far East	Yokohama, Japan	Serves the Western Pacific, also Japan and the Pacific Rim
MSC Pacific	San Diego, CA	Serves the Eastern Pacific, also providing engineering and personnel support in the Western Pacific, Indian Ocean and Persian Gulf
MSC Atlantic	Norfolk, VA	Serves the Gulf of Mexico, the Caribbean, and Puerto Rico
MSC Central	Manama, Bahrain	Serves the Arabian Gulf, Northern Arabian Sea, Sea and Gulf of Oman, and the Red Sea

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2002
Revenue	\$ 1,228,720	\$ 1,295,970	\$ 1,345,500	\$ 1,281,370
Expense	1,233,528	1,304,936	1,379,964	1,313,210
Operating Result	\$ -4,808	\$ -8,966	\$ -34,464	\$ -31,840

Performance Indicators

As one of the primary logistical support mechanisms during war, it is critical that the MSC meet its availability goals to support a Naval force that is armed and ready to react. MSC has a history of maintaining a more than 96% readiness in all vessel categories in the past three years.

In MSC, this measurement is based in "goal days", which is the number of days for a ship to be available multiplied by the number of ships in the program. The availability measures the days the ships are actually available to perform the mission to which they

are assigned against the planned number of available days.

	Goal (days)	Actual (days)	Actual Days to Goal Days (%)
Naval Fleet Auxiliary Force			
FY 2001	22,020	22,017	100%
FY 2000	21,594	21,329	98.8%
FY 1999	12,240	12,215	99.8%
Albat Pre-positioning Ships - Navy			
FY 2001	5,842	5,689	97.4%
FY 2000	5,673	5,606	98.8%
FY 1999	5,475	5,301	96.8%
Special Mission Ships			
FY 2001	9,942	9,630	96.9%
FY 2000	9,785	9,445	96.5%
FY 1999	8,395	8,395	100%

Base Support

The Base Support Activity Group provides the support to maintain the land-based installations for our globally deployed Navy and Marine Corps through two activities. In the Base Support Activity Group, two NWCF activities operate:

- Naval Facilities Engineering Service Center
- Public Works Centers

	Revenue (\$ in thousands)
Naval Facilities Engineering Service Center	\$ 82,395
Public Works Centers	\$ 1,603,784

Naval Facilities Engineering Service Center

The Naval Facilities Engineering Service Center (NFESC) provides engineering, design, construction, technology implementation, and management support worldwide to shore, ocean, and waterfront activities and to amphibious and expeditionary operations. The center also provides environmental, energy, and utility services from its Port Hueneme, CA location.

The NFESC supports the global Naval presence in five distinct areas of expertise:

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Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 84,695	\$ 92,347	\$ 82,395	\$ 74,547
Expense	84,721	91,010	85,607	74,786
Operating Result	\$ (26)	\$ 1,337	\$ (3,213)	\$ (239)

In FY 2001, there was a decline in direct contractual services associated with the DoD Lock program, which was reflected in the decline of Actual Revenue and Expense from the previous years. The significant variance between the actual and planned Operating Result for FY 2001 is attributable to the record-breaking utility costs increases in California during the recent energy crisis.

Performance Indicators

As new programs are added to the NFESC workload and the automation of manual processes continues, the number of indirect workyears required to support direct workyears has continued to decline.

Productivity Ratio:

FY 2000 67.5% FY 2001 74.7%

Public Works Centers

The mission of the Public Works Centers (PWCs) is to provide the best public works support and services to meet the diverse needs of their clients, thereby becoming the client's provider of choice.

The Navy Public Works Centers (PWCs) provide utilities services, facilities maintenance, family housing services, transportation support, engineering services, and shore facilities planning support to afloat and ashore operating forces and other activities. The Public Work Centers provide base support to military, federal, state, and local activities located within nine regional areas. Currently, PWCs provide support and services to Navy, Marine Corps, Army, Air Force, DoD, Coast Guard, National Aeronautics and Space Administration, state and other Federal and nonfederal activities.



Since FY 1998, the PWC workforce has declined by over 3,000 positions (25%) while increasing its regional responsibilities. With declining budgets and increased missions, PWCs, now operating as Regional Engineers, have developed a strong, cohesive business operation designed to optimize service to their Fleet clients and ashore commands.

FY 2002 President's Budget

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At the beginning of FY 2001, the PWC Detachment located in Philadelphia was consolidated with PWC Norfolk, leaving 9 principal PWC Detachments serving a particular geographic area:

Installation	Location
PWC Washington	Washington, DC
PWC Great Lakes	Great Lakes, IL
PWC Guam	Agana, Guam, Marianas Islands
PWC Jacksonville	Jacksonville, FL
PWC Norfolk	Norfolk, VA
PWC Pearl Harbor	Pearl Harbor, HI
PWC Pensacola	Pensacola, FL
PWC San Diego	San Diego, CA
PWC Yokosuka	Yokosuka, Japan

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 1,852,010	\$ 1,677,735	\$ 1,603,784	\$ 1,598,242
Expense	1,818,236	1,714,361	1,703,995	1,616,022
Operating Result	\$ 33,774	\$ (36,626)	\$ (100,210)	\$ (72,613)

The California electric utility industry was restructured in 1998, to allow the wholesale price of electricity to float with supply and demand, but held the retail prices capped until stranded assets were paid off by the utilities. In June of 2000, the price of electricity began climbing to unprecedented levels. To mitigate the impact of continued price volatility, PWC San Diego in partnership with Naval Facilities Engineering Command Southwest Division, entered into a contract for the procurement of electricity through the Western Area Power Administration beginning 1 April 2001.

In an effort to offset the impact of potential losses at the PWCs as result of the emergent utility costs, DoD requested and received a FY 2001 supplemental appropriation in the

amount of \$145.5 million. This supplemental was incorporated into the PWC budget as a direct appropriation to the NWCF.

Performance Indicators

One of the primary functions of the PWCs is the maintenance of real property. In this function, timeliness is the primary measurement of performance. The PWCs have established common standard definitions and performance targets for emergency service, minor, and specific work, and mechanisms for reporting job completion reporting at each PWC. Significant improvements have been made both in response and completion for all categories of maintenance work. Since FY 1995, emergency response time has improved by 72%, service work turnaround has improved by 45%, minor work turnaround has improved by 62%, and specific work turnaround has improved by 54%.



Information Services

The Information Services Activity Group supports the design, development, and implementation of the information infrastructure vital to the communications and operations of the DON. In the Information Services Activity Group, two NWCF activities operate:

Navy, Fleet Material Support Office

Space and Naval Warfare Systems Command (SPAWAR) Information Technology Center (ITC)

	Revenue (in thousands)
Navy, Fleet Material Support Office	\$ 83,086
Space and Naval Warfare Systems Command (SPAWAR) Information Technology Center (ITC)	\$ 13,604

The NWCF Annual Financial Report for FY 2001 will be the final year for the Information Services group as an operational Activity Group of the NWCF. With the implementation of Program Budget Decision 423 of 7 December 2000, which transferred FMSO to the Supply Management Activity Group, and the completion of the transfer of the Space and Naval Warfare Systems Command (SPAWAR) Information Technology Center (ITC) to the General Fund for FY 2002, the Information Services Activity Group will be completely dissolved.

Navy, Fleet Material Support Office

The mission of the Navy, Fleet Material Support Office (FMSO) is to employ information technology for the design, development, integration, implementation and maintenance of automated information systems for Navy, DoD, and other federal agencies, with specific

emphasis on systems supporting Naval supply, inventory and material management, financial processing, and maintenance operations.

For FY 2001, FMSO was operated from two support stations: one located Mechanicsburg, PA, and the second in Philadelphia, PA. With the implementation of the Navy/Marine Corps Intranet (NMCI) effective 1 October 2001, the Philadelphia location was eliminated.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 85,495	\$ 75,942	\$ 83,086	\$ 81,875
Expense	84,935	77,157	80,959	78,811
Operating Result	\$ 560	\$ (1,215)	\$ 2,127	\$ 3,064

The primary reason for the Operating Result variance is the introduction of the 334 series special pay rates, which became effective January 2001. These mandatory new pay rates caused an increase in labor costs that was not taken into account in the FY 2001 budget projection.

Performance Indicators

During the Service Level Agreement process, performance metrics are negotiated, and performance is measured based on the tallies of customer satisfaction surveys issued to the system user communities. For FY 2001, overall customer satisfaction was rated at 89%, with 95% of deliveries made on or before the customer due date, and 98% of the product delivered within the required quarter of the fiscal year.

The Space and Naval Warfare Systems Command Information Technology Center

The Space and Naval Warfare Systems Command (SPAWAR) Information Technology Center (ITC) (formerly the Naval Reserve Information Systems Office) provides information management and information technology products, services, and solutions to the Navy, DoD, and other government agencies, and performs other functions and tasks as directed by higher authority. The SPAWAR ITC operation is based in New Orleans, LA.

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2002
Revenue	\$ 10,786	\$ 13,669	\$ 13,604	\$ 12,302
Expense	13,531	13,884	15,331	12,086
Operating Result	\$ (2,745)	\$ (215)	\$ (1,727)	\$ 216

The deviation between the actual and planned resulted in a reduction in work to the SPAWAR ITC as sponsors revised their reimbursable funding levels in anticipation of the SPAWAR ITC transfer to the General Fund.

SPAWAR ITC's accounting system was disestablished effective 1 October 2001. All residual accounts have been transferred to the SPAWAR Systems Center located in Charleston, SC, where they reside in the DIFMS accounting system. The Charleston center will be responsible for maintenance and resolution of the transferred records.

Research & Development

The Research & Development Activity Group explores the application of twenty-first century technology for the United States Naval forces dedicated to projecting U.S. power and influence from the sea, to shaping events ashore, and to maintaining the freedom of the seas. The NWCF Research & Development Activity Group is supported by five Activities:

- Naval Surface Warfare Center
- Naval Undersea Warfare Center
- Naval Air Warfare Center
- Naval Research Laboratory
- Space and Naval Warfare Systems Center

	Revenue (\$ in thousands)
Naval Surface Warfare Center	\$ 2,930,942
Naval Undersea Warfare Center	\$ 771,174
Naval Air Warfare Center	\$ 2,228,256
Space and Naval Warfare Systems Center	\$ 1,732,348
Naval Research Laboratory	\$ 513,094

Although not reflected in the revenue displayed above, also included in the Net Results and Financial Position reported in the Combining/Consolidating Statements for the Research and Development Services Activity Group is the residual accounting for the former Naval Computer and Telecommunications Command (NCTC). The functions previously performed by NCTC have been transferred from the Information Services Activity Group to the Research and Development Activity Group effective 1 October 2000.

21st century technology offers enormous opportunities to enhance war-fighting capabilities...we cannot afford to ignore emerging technologies, both to mitigate risk and to take advantage of new possibilities.

Report of the Secretary of Navy
Annual Defense Report given to the Congress for FY 2000 by the Secretary of Defense.

Naval Surface Warfare Center

The Naval Surface Warfare Center operates the Navy's full spectrum research, development, test and evaluation, engineering and fleet support center for ship hull, mechanical, and electrical systems, surface ship combat systems, coastal warfare systems, and other offensive and defensive systems associated with surface warfare.



NSWC Division	Geographic Location	Function
CARDEROCK DIVISION	Carderock, MD Philadelphia, PA Ft. Lauderdale, FL Memphis, TN Norfolk, VA Bremerton, WA Beyrisse, ID	Research, development, testing, and evaluation of ships, submarines, and other marine technologies.
CRANE DIVISION	Crane, IN Fallbrook, CA	Research, development, testing, and evaluation of the electronic, chemical, and physical components of an effective and combat ready Naval force.
DAHLGREN DIVISION	Dahlgren, VA Pomona City, FL Dam Neck, VA [Personnel]	Research, development, and test and evaluation for surface ship combat systems, ordnance, mines, strategic systems, amphibious warfare, mine countermeasures, and special warfare systems.
INDIAN HEAD DIVISION	Indian Head, MD Yorktown, VA Mackinac, CK Eorle, NJ Seal Beach, CA Concord, CA	Research, development, and test and evaluation for energetics research, weapons product development, and detection science.
CORONA DIVISION	Corona, CA	Gauges the working capacity of ships and aircraft, from unit to battle group level...by assessing the suitability of design, the performance of equipment and weapons, and the adequacy of training.
PORT HUENEME DIVISION	Port Hueneme, CA San Diego, CA Dam Neck, VA (residual) Louisville, KY White Sands, NM	Fleet support - provides safe, effective and affordable operation of combat and weapons systems used on United States Navy ships as well as ships of several friendly nations.

Actual FY 2001
Operating Result was \$3,689 thousand ahead of plan. The primary reason for higher than planned operating results was execution of more direct labor hours than were in the budget estimate. The trends in the revenue and expenses reflect the NSWC's efforts to size itself to meet customer demand.

Operating Result (\$ in thousands)

	Actual FY 1995	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 2,647,402	\$ 2,874,570	\$ 2,930,942	\$ 2,464,294
Expense	2,650,679	2,869,149	2,914,277	2,451,318
Operating Result	\$ (3,277)	\$ 5,421	\$ 16,665	\$ 12,976

Naval Undersea Warfare Center

The Naval Undersea Warfare Center (NUWC) operates the Navy's full spectrum research, development, test and

evaluation, engineering and fleet support center for submarines, autonomous underwater systems, and offensive and defensive weapons systems associated with undersea warfare. In addition to the Headquarters located in Rhode Island, the NUWC also operates Divisions in



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Newport, Rhode Island and Keyport, Washington, and Detachments in West Palm Beach, FL and Waianae, HI.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 733,074	\$ 783,244	\$ 771,174	\$ 715,383
Expense	735,718	786,746	762,360	706,819
Operating Result	\$ (644)	\$ (3,502)	\$ 8,814	\$ 8,564

Actual Operating Result exceeds planned Operating Result by \$0.25M. The major reason for this variance is that NUWC executed more Direct Labor Hours than originally planned.

Naval Air Warfare Center

The Naval Air Warfare Center operates the Navy's full spectrum research, test, and evaluation, in-service engineering, and fleet support activity for naval aircraft engines, avionics, and aircraft support systems, ship/shore/air operations, weapons systems associated with air warfare, missiles, and missile subsystems, aircraft weapons integration, and airborne electronics warfare systems. The center also operates the department's air, land, and sea test ranges.

Naval Research Laboratory

The Naval Research Laboratory (NRL) operates as the Navy's full-spectrum corporate laboratory, conducting a broadly based multidisciplinary program of scientific research and advanced technological development directed toward maritime applications of new and improved materials, techniques, equipment, systems and ocean, atmospheric, and space sciences and related technologies. In fulfillment of this mission, NRL:

- Initiates and conducts broad scientific research of basic and long-range nature in scientific areas of interest to the Navy.
- Conducts exploratory and advanced technological development deriving from or appropriate to the scientific program areas.
- Develops prototype systems applicable to specific projects, within areas of technological expertise.
- Assumes responsibility as the Navy's principal R&D activity in areas of unique professional competence upon designation from appropriate Navy or DoD authority.
- Performs scientific research and development for other Navy activities and, where specifically qualified, for other agencies of the



NAWC Unit	Location	Type of Work Performed
AIRCRAFT DIVISION	Lakehurst, NJ Patuxent River, MD St. Inigoes, MD	Designs, develops and provides engineering support for aircraft systems; shipboard, fixed and mobile communications; and information technology systems.
WEAPONS DIVISION	China Lake, CA Pt. Mugu, CA	Performs RDT&D, logistics, and in-service support for guided missiles, free-fall weapons, targets, support equipment, crew systems, and electronic warfare systems.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 2,127,718	\$ 2,160,503	\$ 2,228,256	\$ 2,186,109
Expense	2,117,922	2,160,254	2,217,259	2,159,031
Operating Result	\$ 9,796	\$ 249	\$ 10,997	\$ 31,078

Department of Defense and, in defense-related efforts, for other Government agencies.

- Serves as the lead Navy activity for space technology and space systems development and support.
- Serves as the lead Navy activity for mapping, charting, and geodesy (MC&G) research and development for the National Imagery and Mapping Agency.

The NRL has sites throughout the continental United States, including Washington, D.C.; Stennis Space Center in Bay St. Louis, MO; Naval Support Activity, Monterey Bay, CA; Chesapeake Bay, MD Detachment; and additional sites in Maryland, Virginia, Alabama, and Florida.

Space and Naval Warfare Systems Centers (SSCs)

The Space Naval Warfare Systems Centers (SSCs) serve as the Navy's full-spectrum research, development, test and evaluation, engineering, and fleet support centers for command, control, and communication systems and ocean surveillance, and the integration of those systems that overarch multiple platforms.

The principal factor in the negative operating result experienced in FY 2001 was the inability to generate the projected level of direct labor hours. Though causes of reduced hours vary, the single largest identifiable direct cause was the loss of NMCI-like work at the former NCTC activities which occurred sooner than expected.



Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 547,983	\$ 534,234	\$ 513,094	\$ 539,893
Expense	542,318	539,587	529,028	562,230
Operating Result	\$ 5,665	\$ (5,353)	\$ (15,934)	\$ (22,337)

In accordance with the Strategic Sourcing Plan, the efficiencies associated with A-76 competition and Business Process Engineering (BPR) are reflected in the NRL Operating Result.

Service Center	Detachments	Type of Work Performed
SSC Charleston, Charleston, SC	Washington, DC Pensacola, FL Norfolk, VA Jacksonville, FL	Designs, builds, tests, field, and supports the fixed frontline command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) systems used today, or planned for the future.
SSC San Diego, San Diego, CA	Pearl Harbor, HI	Provides integrated C4ISR solutions for warship information dominance, as well as leadership assignments in the areas of navigation, microelectronics, robotics, environmental science and marine manual operational systems.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001	Planned FY 2001
Revenue	\$ 1,237,103	\$ 1,502,334	\$ 1,732,348	\$ 1,284,297
Expense	1,240,265	1,482,549	1,734,215	1,282,766
Operating Result	\$ (3,162)	\$ 19,785	\$ (1,867)	\$ 1,531

Supply Management

The Supply Management Activity Group is distinctly different from the NWCF Industrial-type Activity Groups. Unlike the Industrial funds, which recover their costs through unit cost rates, the Supply Management Activity Group recovers its cost through a “cost recovery rate”. Other factors that must be considered within the rate setting process are inventory valuation procedures and the use of standard and net costs. The two activities that comprise the Supply Management Activity Group are Supply Management, Navy and Supply Management, Marine Corps.

	Revenue (\$ in thousands)
Supply Management, Navy	5,677,069
Supply Management, Marine Corps	139,218

Supply Management, Navy

Supply Management — Navy (SM,N) mission is to provide Navy, Marine Corps, Joint and Allied forces with quality supplies and services.

This activity is supported by eight supply management locations:

- Naval Inventory Control Point (NAVICP-M), Mechanicsburg, PA
- Naval Inventory Control Point (NAVICP-P), Philadelphia, PA
- Fleet and Industrial Supply Center (FISC), Norfolk, VA
- Fleet and Industrial Supply Center (FISC), San Diego, CA

- Fleet and Industrial Supply Center (FISC), Puget Sound, WA
- Fleet and Industrial Supply Center (FISC), Jacksonville, FL
- Fleet and Industrial Supply Center (FISC), Pearl Harbor, HI
- Fleet and Industrial Supply Center (FISC), Yokosuka, Japan

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001
Revenue	\$ 5,976,246	\$ 5,281,584	\$ 5,677,069
Expense	7,162,846	4,785,758	4,835,735
Operating Result	\$ (1,186,600)	\$ 495,826	\$ 841,334

A review of FY 1999 and FY 2000 Supply material pricing revealed that prices were set too low to achieve full cost recovery. The FY 2001 rate calculation corrects for this anomaly and has led to significant rate increase between FY 2000 and FY 2001.



Supply Management, Marine Corps

The Marine Corps Supply Management Activity Group performs inventory management functions that result in the sale of consumable and repairable items to support both DoD and other government agencies.

The Marine Corps operates nine Direct Support Stock Control (DSSC) activities, namely: Quantico, Parris Island, Camp LeJeune, Albany, Barstow, San Diego, Twentynine Palms, Camp Pendleton, and Camp Butler. In addition to these DSSCs, the Marine Corps manages one Inventory Control Point (ICP) Marine Corps Logistic Base in Albany, GA. The ICP serves as the wholesale component of the activity, providing Marine Corps- managed consumable and repairable items to the Fleet Marine Force and other customers.

Operating Result (\$ in thousands)

	Actual FY 1999	Actual FY 2000	Actual FY 2001
Revenue	\$ 170,500	\$ 166,300	\$ 139,218
Expense	294,500	132,900	150,264
Operating Result	\$ (124,000)	\$ 33,400	\$ (11,046)

Included in the FY 2001 expenses are the War Reserve Material Obligations in the amount of \$6.5 million.



